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FRAUDULENCE IN BANKING SYSTEM – AN EVIDENCE FROM INDIA

¹NAVITHA. P, ²Dr. M. JEGADEESHWARAN

¹Ph. D Research Scholar, ²Associate Professor

Department of Commerce, Bharathiar University, Coimbatore

Abstract

The aim of the study is to analyse the bank fraud cases reported in India for the past six years from 2017-18 to 2022-23 using Secondary data collected from the official website of RBI. The study analysed the fraud cases reported Bank group wise and in terms of Area of Operations using Measurement scales. The findings of the study show that more of the fraud cases in number and amount involved are reported in Public sector banks and Private sector banks; and the frauds cases in Payment banks and Small Finance banks is growing rapidly. Further, most of the bank fraud cases reported is in the areas of Advances and Card/Internet operations, and fraud cases reported on Cash transactions is increasing rapidly.

Keywords: Banks, Frauds, India, Bank groups, Area of Operation

I. Introduction

Banks operate with the money of public. They accept deposit from the public and lend the same to the public as loans and advances. Banks and Financial institutions are the main source that people depend when they are in need of money. Banks act as an intermediary between those who have savings and those who are in need of money. Occurrence of frauds and robberies in banks is now a days a big matter of concern. Bank frauds usually include all illegal means to obtain the cash, assets or any other valuable property held by banks or financial institutions. Irrespective of the classes of banks, frauds is present in every category of banks. As the era changes towards the adoption of digital means, banks are also in the track of utilising the emerging technologies. But this also increases the chances of theft and robberies ultimately leading to frauds. Even though the primary responsibility of the prevention of such fraudulent practices is in the hands of the Banks itself, RBI being the advisory authority is also taking keen measures in order to avoid and prevent them.

II. Review of Literature

Khanna Ashu and Arora Bindu (2009) studied the various causes responsible for the bank frauds along with the perception of bank employees towards preventive mechanism and their awareness with respect to vivid bank frauds. The study was conducted using primary data collected from 253 bank employees from the important district of Uttarakhand. The results of the study shows that Overburdened staffs, Lack of training, Competition and Corrupt officer in charge are the main causes of Bank frauds. Further the awareness level of the bank employees towards various frauds are not satisfactory and they do not poses a favourable attitude towards the mechanisms to prevent frauds as they couldn't follow those since they are overloaded with work pressure and competition and due the lack of training given to them.

Sukanya Kundu and Nagaraja Rao (2014) studied the reasons of banking frauds in India using Primary data collected from ABC bank. The study arrived to the conclusion that inadequate inspection and verification of documents, inadequate monitoring, improper collateral management, lack of credit due diligence by credit team, inadequate financial statement due diligence, intercompany checks not performed adequately and non performance of borrower background checks are the main reasons for bank frauds in India.

Madan Lal Bhasin (2015) made an empirical study on the Frauds in the Indian banking industry using primary data collected from 345 Bank employees from the National Capital region. The study aims to analyse the perception of the Bank employees towards Bank frauds and to analyse the factors that influence the degree of their compliance level. The outcomes of the study shows that there exist poor employment practices, lack of effective training, over-burdened staff, weak internal control systems and low compliance levels on the part of Bank Managers, Officers and Clerks.

Neha Sharma and Dhiraj Sharma (2017) assessed the reasons for the occurrence of the bank frauds and the approach of the bank employees towards frauds and the implementation of various preventive measures. The study is based on the primary data collected from 180 bank employees from Patiala and Mohali districts of Punjab. The study identifies Insufficient Job training, Work pressure, Family pressure and Competitiveness among Colleagues as the main reasons for the bank frauds. Findings of the study show that the approach of the bank employees towards frauds is not acceptable and they observe the mechanisms to prevent frauds as a trouble as they are not able to follow them due extreme work load and competition.

III. Statement of the problem

Bank frauds are of much importance since they deal with public's money. Banks being the custodian of the money of the common public have a primary role in the prevention of any sorts of frauds against them especially in that of financial nature. Along with the emergence of the digitalisation in the banking sector there is also a rapid increase in the occurrence of frauds in banks. Many bank scams are now being reported and more of them involve crores of rupees. The study is an attempt to study the bank fraud cases reported in India in terms of various Bank groups and different area of operations.

IV. Objective of the study

- To examine the occurrence of Bank frauds through measurement scales.

V. Research Methodology

The study is empirical in nature.

5.1 Sources of data

The study is based on Secondary data. Data on Bank Frauds on the basis of Bank group and Area of operation is collected from the official website of Reserve bank of India.

5.2 Period of Study

The study covers a period of six years from 2017-18 to 2022-23.

5.3 Tools for analysis

For the analysis of data Descriptive statistics is used in the study.

VI. Analysis and Interpretation

Table 1: Descriptive statistics of Bank fraud cases reported Bank group wise from 2017-18 to 2022-23

Year	Bank Groups						
	Public Sector Banks	Private Sector Banks	Foreign Banks	Financial Institutions	Small Finance Banks	Payments Banks	Local Area Banks
2017-18	2885	1975	974	12	65	3	2
2018-19	3704	2149	762	28	115	39	1
2019-20	4410	3065	1026	15	147	38	2
2020-21	2888	3705	519	22	114	88	2
2021-22	3075	5332	494	9	155	30	2
2022-23	3405	8932	804	9	312	68	0
Mean	3394.50	4193.00	763.17	15.83	151.33	44.33	1.50
CV	0.17	0.63	0.29	0.48	0.56	0.67	0.56
CAGR	0.03	0.29	-0.03	-0.05	0.30	0.68	-1.00

Source: Official website of RBI

The above table 1 depicts the descriptive statistics of the number of Bank fraud cases reported Bank group wise for the six years from 2017-18 to 2022-23. More of the fraud cases are reported in Private sector banks followed by Public sector banks with mean values 4193 and 3394.5 respectively. Fraud cases are reported less in Local area banks followed by Financial institutions with mean values 1.5 and 15.83

respectively. Coefficient of Variation is high for Payment Banks followed by Private sector banks with values 67 and 63 per cent indicating high variation in the fraud cases reported. Whereas Coefficient of Variation is least for Public sector banks followed by Foreign Banks with values 17 and 29 per cent indicating low variation in the fraud cases reported. Compound Annual Growth rate is high for Payment Banks followed by Private sector banks with values 68 and 29 per cent indicating that the number of fraud cases reported in both has grown in an increasing during the study period. Compound Annual Growth rate is low for Local area banks followed by Foreign Banks and Financial institutions with values -100, -5 and -3 per cent respectively indicating that the number of fraud cases reported in those banks have decreased during the study period.

Table 2: Descriptive statistics of amount involved in Bank fraud cases reported Bank group wise from 2017-18 to 2022-23

							<i>Rs. in crores</i>
Year	Public Sector Banks	Private Sector Banks	Foreign Banks	Financial Institutions	Small Finance Banks	Payments Banks	Local Area Banks
2017-18	38260.87	2478.25	256.09	164.7	6.19	0.9	0.04
2018-19	64207	5809	955	553	8	2	0.02
2019-20	148224	34211	972	2048	11	2	0
2020-21	77879	45515	3110	5853	30	3	0
2021-22	40015	17387	1206	1178	30	1	2
2022-23	21125	8727	292	70	31	7	0
Mean	64951.81	19021.21	1131.85	1644.45	19.37	2.65	0.34
CV	0.70	0.91	0.92	1.33	0.63	0.86	2.36
CAGR	-0.09	0.23	0.02	-0.13	0.31	0.41	-1.00

Source: Official website of RBI

Table 2 shows the descriptive statistics of the amount involved in Bank fraud cases reported Bank group wise for the six years from 2017-18 to 2022-23. Public sector banks have reported the highest amount in Bank frauds followed by Private sector banks with mean values of rupees 64951.81 and 19021.21 crores. The least amount of Bank frauds was reported in Local area banks followed by Payment Banks with mean values of rupees 0.34 and 2.65 crores respectively. Coefficient of Variation is found high for Local area banks followed by Financial institutions with values 236 and 133 per cent respectively indicating high variation in the amount involved in fraud cases reported in them. Whereas Coefficient of Variation is less for Small Finance Banks followed by Public sector banks with values 63 and 70 per cent indicating least variations in the amount involved in fraud cases reported in them. Compound Annual Growth rate is high for Payment Banks followed by Small Finance Banks with values 41 and 31 per cent respectively which indicates that there is high growth in the amount involved in fraud cases reported. Compound Annual Growth rate is low for Local area banks followed by Financial institutions with values -100 and -13 per cent

which indicates that the amount involved in fraud cases reported in those banks has decreased over the study period.

Table 3: Descriptive statistics of Bank fraud cases reported in terms of Area of Operations from 2017-18 to 2022-23

Year	Advances	Off-balance Sheet	Forex Transactions	Card/Internet	Deposits	Inter-Branch Accounts	Cash	Cheques/DDs, etc	Clearing Accounts	Others
2017-18	2525	20	9	2059	697	6	218	207	37	138
2018-19	3603	33	13	1866	593	3	274	189	24	200
2019-20	4608	34	8	3677	530	2	371	201	22	250
2020-21	3476	23	4	3545	504	2	329	163	14	278
2021-22	3833	21	7	3596	471	3	649	201	16	300
2022-23	4109	14	13	6659	652	3	1470	118	18	474
Mean	3692.33	24.17	9.00	3567.00	574.50	3.17	551.83	179.83	21.83	273.33
CV	0.19	0.32	0.39	0.48	0.15	0.46	0.86	0.19	0.38	0.42
CAGR	0.08	-0.06	0.06	0.22	-0.01	-0.11	0.37	-0.09	-0.11	0.23

Source: Official website of RBI

Table 3 exhibits the descriptive statistics of the number of Bank fraud cases reported in terms of Area of Operations for the six years from 2017-18 to 2022-23. More number of Bank frauds was reported in the area of Advances followed by Card/Internet with mean values of 3692.33 and 3567 respectively. Less number of Bank frauds was reported in the area of Inter-Branch accounts followed by Forex transactions with mean values of 3.17 and 9 respectively. Coefficient of Variation is high in case of Cash operations followed by Card/Internet and Inter-branch accounts with 86, 48 and 46 per cent respectively indicating high variation in the number of bank fraud cases reported. Whereas Coefficient of Variation is found low for Deposits followed by Advances and Cheques/DDs etc. with 15, 19 and 19 per cent respectively indicating low variations in the number of bank fraud cases reported. Compound Annual Growth rate is high for Cash operations followed by Other operations and Card/Internet operations with values 37, 23 and 22 per cent respectively indicating that the number of fraud cases reported has increased rapidly. Compound Annual Growth rate is found low for Inter-branch accounts and Clearing Accounts followed by Cheques/DDs etc.

and Off-balance sheet operations with -11, -11, -9 and -6 per cent respectively indicating that the number of fraud cases reported have decreased during the study period.

Table 4: Descriptive statistics of amount involved in Bank fraud cases reported in terms of Area of Operations from 2017-18 to 2022-23

Rs. in crores

Year	Advances	Off-balance Sheet	Forex Transactions	Card/Internet	Deposits	Inter-Branch Accounts	Cash	Cheques/DDs, etc	Clearing Accounts	Others
2017-18	22558.32	16287.67	1425.8	109.56	462.27	1.19	40.34	34.12	5.62	242.15
2018-19	64539	5539	695	71	148	0	56	34	209	244
2019-20	181942	2445	54	129	616	0	63	39	7	173
2020-21	130990	535	129	119	434	0	39	85	4	54
2021-22	57733	1077	7	155	493	2	93	158	1	100
2022-23	28792	296	12	276	258	0	158	25	3	432
Mean	81092.39	4363.28	387.13	143.26	401.88	0.53	74.89	62.52	38.27	207.53
CV	0.77	1.41	1.48	0.49	0.42	1.62	0.60	0.82	2.19	0.64
CAGR	0.04	-0.49	-0.55	0.17	-0.09	-1.00	0.26	-0.05	-0.10	0.10

Source: Official website of RBI

The above table 4 displays the descriptive statistics of the amount involved in Bank fraud cases reported in terms of Area of Operations for the six years from 2017-18 to 2022-23. More amount of Bank frauds were reported in the area of Advances followed by Off-balance sheet operations with mean values of rupees 81092.39 and 4363.28 crores respectively. Less amount of Bank frauds were reported in the area of Inter-Branch accounts followed by Clearing Accounts with mean values of rupees 0.53 and 38.27 crores respectively. Coefficient of Variation is high in case of Clearing Accounts followed by Inter-Branch accounts with 219 and 162 per cent respectively indicating high fluctuation in the amount involved in bank frauds. Whereas Coefficient of Variation is found low in case of Deposits followed by Card/Internet operations with 42 and 49 per cent respectively indicating less fluctuations in the amount involved in bank frauds. Compound Annual Growth rate is found high for Cash operations followed by Card/Internet operations with 26 and 17 per cent respectively which indicates that there is high growth in the amount involved in fraud cases reported. Whereas Compound Annual Growth rate is found less for Inter-Branch

accounts followed by Forex Transactions and Off-balance sheet operations with -100, -55 and -49 per cent respectively which indicates that the amount involved in fraud cases reported in those operations has decreased over the study period.

VII. Findings

- More number of the bank fraud cases is being reported in Private sector banks followed by Public sector banks and less number of the bank fraud cases are being reported in Local area banks followed by Financial institutions.
- More variation in the number of fraud cases reported is found in Payment Banks followed by Private sector banks and less variation in the number of fraud cases reported is found in Public sector banks followed by Foreign Banks.
- High growth in the number of fraud cases reported is found in Payment Banks followed by Private sector banks and low growth in the number of fraud cases reported is found in Local area banks followed by Foreign Banks and Financial institutions.
- Public sector banks has reported the highest amount in Bank frauds followed by Private sector banks and least amount of Bank frauds was reported in Local area banks followed by Payment Banks.
- High variation in the amount involved in Bank frauds reported is found in Local area banks followed by Financial institutions and less variation in the amount involved in Bank frauds reported is found in Small Finance Banks followed by Public sector banks.
- High growth in the amount involved in Bank frauds reported is found in Payment Banks followed by Small Finance Banks and low growth in the amount involved in Bank frauds reported is found in Local area banks followed by Financial institutions.
- More number of Bank frauds was reported in the area of Advances followed by Card/Internet and less number of Bank frauds was reported in the area of Inter-Branch accounts followed by Forex transactions.
- High variation in the number of fraud cases reported is found in the area of Cash operations followed by Card/Internet and Inter-branch accounts and less variation in the number of fraud cases reported is found in the area of Deposits followed by Advances and Cheques/DDs etc.
- High growth in the number of fraud cases reported is found in the area of Cash operations followed by Other operations and Card/Internet operations; and low growth in the number of fraud cases reported is found in the area of Inter-branch accounts and Clearing Accounts followed by Cheques/DDs etc. and Off-balance sheet operations.
- More amount of Bank frauds were reported in the area of Advances followed by Off-balance sheet operations and less amount of Bank frauds were reported in the area of Inter-Branch accounts followed by Clearing Accounts.
- High variation in the amount involved in Bank frauds reported is found in the area of Clearing Accounts followed by Inter-Branch accounts and less variation in the amount involved in Bank frauds reported is found in the area of Deposits followed by Card/Internet operations.

- High growth in the amount involved in Bank frauds reported is found in the area of Cash operations followed by Card/Internet operations and low growth in the amount involved in Bank frauds reported is found in the area of Inter-Branch accounts followed by Forex Transactions and Off-balance sheet operations.

VIII. Suggestions

- Public sector banks and Private sector banks should take more preventive measures in order to reduce bank frauds as more of Fraud cases are reported in them.
- Payment Banks and Small Finance Banks shall also take measures in order to reduce the high growth rate in fraud cases.
- Banks should be careful in the areas of Advances, Cash operations as well as Card/ Internet transactions as more of the fraud cases are reported in these areas.
- Bank employees is to given more training especially in the field of fraudulent activities, so that they can be alert always and can help in the prevention of frauds.

IX. Conclusion

Even though robberies and fraudulent practices are present in all streams of the economy, Bank related frauds are more crucial since banks deal with public's money. Digitalisation of the Banking sector has increased the chances of frauds. Bank frauds using digital means is one of the upcoming threat to the society. Public and Private sector banks are more prone to the occurrence of bank frauds. More of the bank fraud cases are reported in the areas of advances as well as cash operations. In order to prevent the threat of frauds to the Banking sector, the RBI along with the integration of banks should take necessary measures, so that those who deal with banks can feel safe in their transactions.

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